

REPORT ON EXAMINATION

AS TO THE CONDITION OF THE

ATLANTIC SOUTHERN DENTAL FOUNDATION

ATLANTIC CITY, NEW JERSEY 08401

AS OF DECEMBER 31, 2007

N.A.I.C. GROUP CODE 00000

N.A.I.C. COMPANY CODE 11217



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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION

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JON S. CORZINE
Governor

TEL (609) 292-5350
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STEVEN M. GOLDMAN
Commissioner

Dear Mr. Goldman:

In accordance with the authority vested in you by the Revised Statutes of New Jersey (N.J.S.A.) an examination has been made of assets, liabilities, methods of conducting business and other affairs of the

Atlantic Southern Dental Foundation
3430 Atlantic Avenue
Atlantic City, NJ 08648
N.A.I.C. Group Code 11217
N.A.I.C. Company Code 0000

hereinafter referred to as the "Foundation", "Company" or "ADSF"

SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this Examination in compliance with the requirements of N.J.S.A. 17:48D-11(a). The examination was a full scope comprehensive examination and was conducted at the Foundation's home administrative office located at 615 Chestnut Street, One Independence Mall-Suite #1001, Philadelphia, PA 19106-4411.

This is the initial full scope financial examination of the Foundation since it commenced operations in April 1, 1984.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners (NAIC) and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance (NJDOBI).

The following criteria were used in determining the emphasis to be placed on each specific account:

- Adequacy of the Foundation's system of internal control
- Materiality of each account and its relationship to the Foundation's solvency
- Analytical reviews performed under the review of the Examiner-In-Charge
- Internal meetings with the in-house analyst and supervisors indicating target audit areas

In the verification of matters as shown in this report, limited test checks were made, some complete and others partial. Consideration was allowed for limiting the verification on certain accounts at a point where they were determined to be substantially correct or the account under review was considered immaterial and not crucial to the Foundation's solvency.

Consideration was given to work completed on behalf of the Foundation by the following Entities:

Mayer Hoffman McCann P.C.-CPA Auditors
Dental Benefit Management, Inc. (an Affiliate)-Administrative and Management Services

HISTORY AND KIND OF BUSINESS

The Atlantic Southern Dental Foundation is a Partnership formed under a joint venture agreement dated December 23, 1983, between three equal partners Atlantic Dental Foundation, Inc., Southern Dental Foundation, Inc. and Dental Benefit Management, Inc. The Partnership is owned by the participating dentists in both Foundations and Bertram H. Serota, the owner of Dental Benefit Management, Inc. The Atlantic Southern Dental Foundation (Partnership) was incorporated on March 21, 1984 as a dental plan organization pursuant to N.J.S.A. 17:48D-1. The Atlantic Southern Dental Foundation contracts with organizations (sponsors) to provide dental services to the sponsor's eligible employees. The Foundation will receive monthly premiums based on a contractual fixed price with its sponsors.

The Atlantic Dental Foundation, Southern Dental Foundation and the Dental Benefit Management, Inc. each maintain separate Board of Directors and two representatives of all three entities comprise the six member Management Committee which manages the affairs of the Atlantic Southern Dental Foundation.

On September 10, 2003 a resolution was passed by the Managers of the Foundation approving the formation and funding of a dental plan organization pursuant to N.J.S.A.17:48C-1. The Board of Managers further resolved to authorize the officers of Atlantic Southern Dental Foundation to take all steps to create and form the organization and to invest \$25,000 in this endeavor. At the same time a Joint Cooperation Agreement was executed that agreed to provide an additional \$100,000 to fund the Dental Practice Association of New Jersey, Inc. as required by N.J.S.A. 17:48C-25 and during 2005 the Partnership advanced funds to the Dental Practice Association of New Jersey, Inc. in the form of a \$100,000 surplus note. The note bears interest at 1% above prime (8.25% as of December 31, 2007). The repayment of the note and or accrued interest shall be paid only if approved by the NJDOBI. The Note was endorsed by the Board of Managers of the Atlantic Southern Dental Foundation.

The Foundation is licensed to write business within the confines of New Jersey and began writing business in Maryland with the purchase of the assets and assumption of the liabilities of the Dental Practice Association of Maryland under a January 1, 2004 transfer agreement. Under the Agreement if the Foundation elects to cease writing business in Maryland, it is required to donate one-half of any remaining surplus to a charity associated with Maryland dentistry chosen by the Maryland dentists participating in the Benecare (Dental Benefit Management, Inc.) program.

The registered office of the Foundation is located at 3430 Atlantic Avenue, Atlantic City, New Jersey 08401. The registered agent for whom due process may be served is Robert P. Lang, Esquire.

TERRITORY AND PLAN OF OPERATION

ASDF is licensed to write business within the confines of New Jersey and Maryland.

ASDF does not maintain any employees. Rather ASDF's operations are performed by Dental Benefit Management, Inc. under an inter-company Joint Venture Agreement. Under the Agreement Dental Benefit Management, Inc.(DBMI) is to provide servicing of ASDF's operations including:

- Marketing and Sales
- Client Contract Negotiation and execution
- Administration
- Bookkeeping and Accounting Services
- Data Summarization
- Client Servicing
- Managing Investments
- Claims Processing

Compensation for the services provided is based upon the fee indicated at the execution of each group plan contract. The fee paid for services rendered is based upon the expected cost to provide such services to the Sponsor's Group. The maximum amount of fees paid is limited as indicated below:

- Fee shall not exceed 30% of the premium paid by each employee under each group in the first year under the plan
- Fee shall not exceed 25% of the premium paid by each employee under each group in the second year under the plan
- Fee shall not exceed 20% of the premium paid by each employee under each group for each subsequent year

ASDF has contracts with twelve organizations or sponsors (the term sponsor is used to refer to a group, either a commercial or governmental entity that has entered into a contract to provide dental benefits or coverage to its eligible employees and their dependants). ASDF utilizes underwriting guidelines and provides rates to sponsor's employees using a three tier rating system (single, two-party and family). Rates are processed using up to four components: care, administration, Independent Practice Association's overhead, and commission income. Atlantic Southern Dental Foundation currently has 25,894 employees and a total membership of 59,732 under its New Jersey plans and 496 employees and a total membership of 847 under its Maryland plans.

ASDF does not utilize capitation based payments for participating dentists. Rather the Foundation operates within a network of participating dentists under a payment methodology per N.J.S.A.17:48D-2 which was agreed upon by the NJDOBI on December 26, 2006. This change will allow the Company to implement payment withholds based upon the methodology utilized. Concurrent with the change in methodology the Company is required to revise provider agreements in accordance with N.J.A.C 11:10-1.5 (b). It is

recommended the Company revise its provider agreements to conform with the new methodology in accordance with N.J.A.C 11:10-1.5 (b).

Claims can be submitted electronically either directly through the submission of claim data from participating dentists or through claims processing clearinghouses. Paper claims are digitalized and converted to electronic claims data through a subcontractor, Data Dimensions Corporation who provides data conversion services.

The Company does work with independent agents and some direct mailings in soliciting new business sponsors. However there have been no recent sponsor additions.

CORPORATE RECORDS

Corporate records are held in ASDF's home administrative office.

The management committee of ASDF meets annually and minutes of the Foundation revealed proper approval of ASDF business transactions.

MANAGEMENT AND CONTROL

The Partnership is managed by a management committee consisting of two representatives from the Atlantic Dental Foundation, Southern Dental Foundation and the Dental Benefit Management, Inc. The management committee was comprised of the following members as of December 31, 2007:

<u>NAME</u>	<u>REPRESENTATION</u>	<u>ADDRESS</u>
Bertram H. Serota, DDS-Chairman	Dental Benefit Management, Inc.	BeneCare Dental Plans 615 Chestnut Street Suite 1001 Philadelphia, PA 19106-4411
Phyllis Serota	Dental Benefit Management, Inc.	BeneCare Dental Plans 615 Chestnut Street Suite 1001 Philadelphia, PA 19106-4411
Stanley Cohen, DDS	Atlantic Dental Foundation	2198 New Road Linwood, NJ 08221
Harry Colton, DDS	Atlantic Dental Foundation	297 Westwood Drive Suite 105 Woodbury, NJ 08096

<u>NAME</u>	<u>REPRESENTATION</u>	<u>ADDRESS</u>
Stanton Deitch, DDS	Southern Dental Foundation	1756 Larkspur Road Cherry Hill, NJ 08003
Joshua Braunstein, DDS	Southern Dental Foundation	5001 Ventnor Avenue Ventnor, NJ 08406

Members of the management committee remain members indefinitely until they are unable or unwilling to continue in their capacity as members. Any vacancy will be filled by the representation of the departing member. Any transaction of business must be unanimously approved and all members must vote on any transaction of business.

Under the Joint Venture Agreement the policies and procedures agreed upon by the Management Committee shall be carried out by the Dental Benefit Management, Inc. as administrator of the ASDF.

POLICY ON CONFLICT OF INTEREST

The ASDF does not maintain a code of ethics or conflict of interest policy for its officers and directors. It is recommended ASAF develop a code of ethics policy which maintains at a minimum the following standards:

- Honest and Ethical Conduct in all business and personal relationships
- Proper disclosure and reporting of financial, business and other periodic reports filed with governing authorities
- Compliance with applicable governmental laws, rules and regulations
- Internal procedures developed for the reporting and accountability of the standard maintained within the code of ethics policy

The Foundation should also ensure all officers and directors complete a conflict of interest statement on an annual basis and provide for the independent review (such as legal counsel) of those statements.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The ASDF maintains fidelity bond coverage of \$500,000 for protection against theft, forgery and fraud in compliance with N.J.A.C. 11:10-1.11. The amount of fidelity coverage is in excess of the suggested amount of coverage as measured by the NAIC formula and exposure index.

Additionally ASDF also maintains \$2,000,000 of professional liability and \$1,000,000 of directors and officers liability coverage.

ACCOUNTS AND RECORDS

DBMI maintains ASDF's accounts and records and provides all processing of revenue and expenses.

ASDF’s books of account are maintained on the Innovation Software Solutions, Inc. (ISSI) accounting System. Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form and was tested and reconciled to the general ledger and the annual statement. All of the Company’s books and records are maintained at the Company’s Administrative office in Philadelphia, Pennsylvania.

Claim reserves and payments are recorded utilizing the Plan Administration, Claims adjudication, Payment Processing and Enrollment/Eligibility management (PACE) system. The PACE System was designed by ISSI and allows Dental Benefit Management, Inc. to use the same platform to manage indemnity, PPO and specific co-payment programs. Claims are entered into PACE directly through batch processing by dentists and claims processing clearinghouses with the utilization of practice management software. Papers claims are outsourced to Data Dimensions Corporation which digitalize paper claims prior to entry into the PACE system. Claims received are reviewed to ensure information on the claim is accurate such as subscriber, dependant, dentist and procedure performed. The claims are then uploaded into the PACE System on an individual claim basis. The claim database will also provide a check to ensure all claim information is accurate. Once a claim is processed the System will generate checks and the signature of Bertram H. Serota is stamped on the checks. There are no manual signatures needed for claim checks. The checks paid by the System are then entered into a check register which feeds the general ledger system and posts the checks paid.

Premium receipts are actually premiums received from the Company Sponsors. Invoices are developed based upon each Sponsor’s contract (which is based upon the number of enrolled members and rate charged per member). Once a payment is received via a post office it is recorded on EXCEL spreadsheet and the amount is posted to the Company's cash receipts system. The cash receipt system directly feeds the general ledger system. Premium income for out of network dental services provided to ASDF enrollees is paid by ASDF to Dental Plan Association of New Jersey (DPANJ) based upon four different rates. Premium rates charged to ASDF Sponsors for out of network dental services are based upon the Sponsor’s historical utilization of out of network services. Any premium received from Sponsors for out of network services is recorded by ASDF and paid to its affiliate DPANJ who provide for such services. Applicable commission payments are generated based upon each Sponsor’s contract. There is only one Sponsor for which broker commission payments are due as of this examination report date. Commissions are not paid until the monthly premium income is received from the Sponsor.

Interest receipts on any income are posted per journal entry based upon monthly investment statements.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

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Atlantic Southern Dental Foundation
EXHIBIT A-Balance Sheet
As of December 31, 2007

<u>Current Assets</u>	<u>Current Examination</u>	<u>Company Reported</u>	<u>Examination Change</u>	<u>Note Number</u>
Bonds	\$715,000	\$715,000	\$0	
Cash, cash equivalents and ST Investments	1,790,345	1,790,345	0	1,2
Other Invested Income-Surplus Note	100,000	100,000	0	
Uncollected Premiums	98,988	98,988	0	
Investment Income Due and Accrued	<u>2,401</u>	<u>2,401</u>	<u>0</u>	
Total Assets	<u>\$2,706,734</u>	<u>\$2,706,734</u>	<u>\$0</u>	
<u>Current Liabilities, Capital and Surplus</u>				
Unpaid Claims and Unpaid Claims Adjustment Expenses	\$1,592,489	\$1,170,878	\$421,611	3*
General Expenses Due or Accrued	<u>25,462</u>	<u>25,462</u>	<u>0</u>	
Total Liabilities	<u>\$1,617,951</u>	<u>\$1,196,340</u>	<u>\$421,611</u>	
<u>Capital and Surplus</u>				
Aggregate Write Ins for Other than Special Surplus Funds	\$100,000	\$100,000	\$0	
Unassigned Funds	<u>988,783</u>	<u>1,410,394</u>	<u>(\$421,611)</u>	
Total Capital and Surplus	<u>\$1,088,783</u>	<u>\$1,510,394</u>	<u>(\$421,611)</u>	
Total Liabilities and Capital and Surplus	<u>\$2,706,734</u>	<u>\$2,706,734</u>	<u>\$0</u>	

* The Company reported amounts include a subsequent increase of \$300,000 to reserves in the first quarter 2008 approved by the NJDOBI for December 31, 2007 reporting purposes.

Atlantic Southern Dental Foundation
Exhibit B-Summary of Operations
For the Five Year Period Ending December 31, 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Revenues</u>					
Net Premium Income	<u>\$ 11,293,893</u>	<u>\$ 12,069,603</u>	<u>\$ 12,600,204</u>	<u>\$ 13,032,838</u>	<u>\$ 12,971,483</u>
Total Revenues	<u>\$ 11,293,893</u>	<u>\$ 12,069,603</u>	<u>\$ 12,600,204</u>	<u>\$ 13,032,838</u>	<u>\$ 12,971,483</u>
<u>Underwriting Expenses</u>					
Hospital/Medical Benefits	<u>\$ 9,497,627</u>	<u>\$ 10,360,730</u>	<u>\$ 10,600,112</u>	<u>\$ 11,472,227</u>	<u>\$ 11,978,457</u>
Claims Administration Expenses	<u>\$ 27,437</u>	<u>\$ 311,799</u>	<u>\$ 307,878</u>	<u>\$ 328,360</u>	<u>\$ 341,822</u>
General Administration Expenses					
Marketing	\$ 12,221	\$ 12,300	\$ 4,050	\$ 38,411	\$ 2,700
Administration Fees	1,156,615	927,198	945,725	964,515	1,007,021
Professional Fees	85,934	64,965	79,226	66,980	89,848
Professional Relations Expenses	-	-	134,125	101,558	97,942
Insurance	72,669	76,882	64,772	61,888	61,437
Contributions	6,300	5,000	10,700	5,550	9,549
Licenses and Applications	17,710	25,952	25,420	30,330	39,899
Commissions	78,657	81,066	82,518	87,367	75,613
Other	<u>15,948</u>	<u>13,333</u>	<u>18,670</u>	<u>30,933</u>	<u>20,587</u>
Total General Administration Expenses	<u>\$ 1,446,054</u>	<u>\$ 1,206,496</u>	<u>\$ 1,365,206</u>	<u>\$ 1,387,532</u>	<u>\$ 1,404,596</u>
Total Underwriting Expenses	<u>\$ 10,971,118</u>	<u>\$ 11,879,025</u>	<u>\$ 12,273,196</u>	<u>\$ 13,188,119</u>	<u>\$ 13,724,875</u>
Net Underwriting Gain or (Loss)	<u>\$ 322,775</u>	<u>\$ 190,578</u>	<u>\$ 327,008</u>	<u>\$ (155,281)</u>	<u>\$ (753,392)</u>
Net Investment Income Earned	<u>\$ 8,084</u>	<u>\$ 7,335</u>	<u>\$ 15,952</u>	<u>\$ 75,605</u>	<u>\$ 117,902</u>
Net Income or (Loss)	<u>\$ 330,859</u>	<u>\$ 197,913</u>	<u>\$ 342,960</u>	<u>\$ (79,676)</u>	<u>\$ (635,490)</u>

Atlantic Southern Dental Foundation
Exhibit C-Capital and Surplus
As Of December 31, 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Capital and Surplus-Prior Year	<u>\$782,802</u>	<u>\$1,114,031</u>	<u>\$1,443,670</u>	<u>\$1,799,816</u>	<u>\$1,732,032</u>
Net Income or Loss	\$330,859	\$197,913	\$342,960	(\$79,676)	(\$635,490)
Change in Non-Admitted Assets	370	(3,624)	13,036	11,742	(7,809)
Capital Changes: Paid In Capital	<u>0</u>	<u>135,350</u>	<u>150</u>	<u>150</u>	<u>50</u>
Net Change in Capital and Surplus	<u>\$331,229</u>	<u>\$329,639</u>	<u>\$356,146</u>	<u>(\$67,784)</u>	<u>(\$643,249)</u>
Total Year-End Capital and Surplus	<u>\$1,114,031</u>	<u>\$1,443,670</u>	<u>\$1,799,816</u>	<u>\$1,732,032</u>	<u>\$1,088,783</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1-CASH

A certificate of deposit with a book value of \$50,177 was held as a statutory deposit by the NJDOBI on behalf of the Company in accordance with N.J.A.C. 11:10-1.8(a).

Additionally a treasury note with a book value of \$97,580 was held by the State of Maryland as a statutory deposit on behalf of the Company.

NOTE 2-CASH

ASDF has not established any procedures for the escheatment of funds in accordance with N.J.S.A. 46:30B. It is recommended ASDF develop guidelines for the escheatment of funds to the State of New Jersey and report any escheatable funds to the State of New Jersey in accordance with N.J.S.A. 46:30.

NOTE 3-LOSS AND LOSS ADJUSTMENT EXPENSES

An evaluation of loss and loss adjustment expense reserves was conducted by reviewing subsequent loss payments for claims with effective dates of December 31, 2007 and prior for the period January 1, 2008 through June 30, 2008. Based upon this analysis loss and loss adjustment expense reserves were found to be understated by \$421,611 (the understatement allows for the Company's \$300,000 subsequent reserve strengthening in the 2008 first quarter). Based upon this finding it is recommended the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

REPORT RECOMMENDATIONS

TERRITORY AND PLAN OF OPERATION

It is recommended the Company revise its provider agreements to conform with the new (loss payment) methodology in accordance with N.J.A.C 11:10-1.5 (b).

POLICY ON CONFLICT OF INTEREST

It is recommended ASAF develop a code of ethics policy which maintains at a minimum the following standards:

- Honest and Ethical Conduct in all business and personal relationships
- Proper disclosure and reporting of financial, business and other periodic reports filed with governing authorities
- Compliance with applicable governmental laws, rules and regulations
- Internal procedures developed for the reporting and accountability of the standard maintained within the code of ethics policy

The Foundation should also ensure all officers and directors complete a conflict of interest statement on an annual basis and provide for the independent review (such as legal counsel) of those statements.

CASH

It is recommended ASDF develop guidelines for the escheatment of funds to the State of New Jersey and report any escheatable funds to the State of New Jersey in accordance with N.J.S.A. 46:30.

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

It is recommended the Company evaluate its reserving methodology to ensure loss reserves are adequately stated in all future financial filings.

SUBSEQUENT EVENTS

The Sponsor Agreement with the Camden Board of Education was not renewed and was effectively terminated on June 30, 2008.

CONCLUSION

The examination of the Atlantic Southern Dental Foundation was conducted by the undersigned at the Company's home office located at 615 Chestnut Street, Suite 1001, Philadelphia, Pennsylvania.

The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged.

Respectfully submitted,

/S/

Robert A. Pietras
Examiner-In-Charge
New Jersey Department of Banking and Insurance

The Atlantic Southern Dental Foundation

I, Robert A. Pietras, do solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2007 to the best of my information, knowledge and belief.

Respectfully submitted,

/S/

Robert A. Pietras
Examiner-In-Charge
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Thomas B. Walker on this 2nd day of June, 2009.

/S/

Notary Public of New Jersey

My commission expires September 29th, 2013